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Fairfax County Internal Audit Office

Department of Purchasing and Supply Management

Procurement Card Audit Report

October 2003

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Executive Summary

Our review of the procurement card program disclosed that, overall, internal controls were adequate and we noted fewer non-compliant internal control concerns than in prior years. The Department of Purchasing and Supply Management (DPSM) is conscientiously administering the procurement card program. The following opportunities for enhancement to controls are discussed in detail in the report:

- As noted in our prior report dated September 16, 2002, the Procedural Memorandum 12-02 "Use of the County Procurement Card" does not provide a definition of or clearly state restrictions regarding "split transactions."

- Internal control procedures at the ten user departments tested throughout FY2003 were well documented and included most of the elements of internal control as outlined in PM12-02. However, the departments need to address certain internal procedures to fully comply with PM12-02. We presented specific recommendations to each user department in a separate memorandum. A summary of the findings noted is included below in the Other Observations section of the report.

Scope and Objectives

This audit was performed as part of our Fiscal Year 2003 Annual Audit Plan and was conducted in accordance with Generally Accepted Government Auditing Standards. We selected ten user departments that represented 19.5% of the total p-card purchases for FY 2002. For the FY2003 audit cycle we selected some of the smaller user agencies that had not been reviewed previously. The audit reviewed internal controls over processing by the ten user departments. The Internal Audit Office has performed a total of 39 departmental procurement card reviews since Fiscal Year 2000. The objectives of our testing were to determine if user departments were following County procedures and rules governing the use of the cards. These rules are outlined in Procedural Memorandum 12-02 “Use of the County Procurement Card.” We also ascertained that the rules and procedures provide reasonable assurance that the cards were used for authorized small business purchases within card restrictions. When card users implement effective internal control structure, the card program can serve its intended use without creating unmitigated risks, thereby increasing operating efficiency and cost savings for the County. The ten user departments selected were:

County Department	Cards	% of Total $
Human Services Administration	52	6.1%
McLean Community Center	6	0.6%
Human Resources	3	0.3%
Circuit Court	11	0.5%
Juvenile Court	3	0.6%
Department of Transportation	4	0.3%
Community Services Board	99	5.8%
Community and Recreation Services	70	1.5%
Health Department	25	1.3%
Wastewater Treatment	7	2.7%
Totals	280	19.5%

Methodology

Audit methodology included a review and analysis of internal control procedures, procurement card expenditures and related accounting records at the ten user departments. Our review included inquiries of appropriate County employees, examination of Procurement Card expenditures, records and statements, interviews with users, and review of internal manuals and procedures. Our objective was to determine if adequate internal control procedures were in place and being followed by the ten user departments. We reviewed procurement card statements that were processed for July, August and September, 2002, to determine that procurement card usage was in compliance with County Procedural Memorandum 12-02.

Findings, Recommendations, and Management Response

Split Transactions

The DPSM Procedural Memorandum 12-02 is the base document for providing guidance to County departments for the procedures and controls as to the use, recording, and administration for procurement card acquisitions. Split transactions are understood as those transactions exceeding the daily card limit amount by dividing the transaction into two or more smaller amounts for a single purchase with a vendor. This practice can be used as a means to circumvent the required purchasing procedures for small orders or purchase orders. Even though these types of transactions are understood to be an unacceptable means of procurement, Procedural Memorandum 12-02 does not address, define, or indicate the unacceptability of such a transaction.

Recommendation: As noted in our prior report dated September 16, 2002, DPSM should provide a policy statement within the text of Procedural Memorandum 12-02 that defines the characteristics of a “split transaction” and the County’s position on this type of transaction. This would provide an authoritative basis for the procurement policy concerning split transactions and provide clearer guidance to departments on this issue.

Management Response: DPSM will revise the Procedural Memorandum 12-02 to include a definition of a "split transaction'" and will indicate that transactions of this nature are prohibited. This revision of the Procedural Memorandum 12-02, should be completed by fourth quarter of fiscal year 2004.

DPSM will send a memorandum to agency heads, which includes the definition of a “split transaction” and discusses how the definition applies to purchasing procedures, including small purchase orders and procurement card purchases. This revision should be completed by the end of December 2003.

Other Observations

During our audit of the procurement card program, we identified certain practices and procedures which we believe could be enhanced to strengthen internal controls, increase efficiencies and help to prevent fraudulent activities. This audit was designed to evaluate a representative sample of procurement card procedures and activities. The following items represent a summary of findings noted during our test work at the ten sampled departments.

1. Written Departmental Internal Control Procedures

Written Departmental Internal control procedures were well documented and included most of the elements of internal control as outlined in PM 12-02 “Use of County Procurement Card.” However, some of the issues that users needed to address in order to comply with PM 12-02 were:

- Current card limitations
- Procedures to ensure adequate funding are available prior to card use
- Acceptable receipt if the department is unable to obtain an original receipt
- Reconciliation procedures to PVS reports, bank statements and the required time frame for completion
- Address the procedure for card cancellation and the Program Manager’s responsibility in that event

2. Vendor Receipts and Statement Approvals

The Card Program Manager reviews statements to ensure those users attach supporting receipts. If they cannot be found, the user is contacted to provide the appropriate documentation. This review process appears to be thorough, however we did find charges at one user department without supporting documentation, photocopies not initialed and dated by the Program Manager, or where the card user could not be identified. Our conclusion was that the charges were proper and that the documentation had been misplaced.

The Program Manager is required to review the Weekly Transaction Report and indicate their approval of the charges by initialing and dating the report and/or initial and date the Bank One statement at month-end. Our review disclosed that reports at five of the ten user departments did not have the Program Manager’s approval. The Weekly Transaction Report lists all transactions by user’s card number that occurred from the prior week. The download reports are available online to those departments that have installed specialized vendor-provided software. Those departments that have not installed the software will receive a copy of their transactions weekly on a report sent by DPSM via the Internet.

3. Employee Acknowledgement Disclosure Form

Three of the ten user departments had a number of employees who had used the card but had not completed a Disclosure Form. PM 12-02 requires that all first-time users must sign a Disclosure Form. By acknowledging the employee’s responsibility in regard to card use and setting forth consequences for card misuse this form is an important piece of the p-card program.

4. Expenditure Log

One of the ten card user departments did not have an acceptable Expenditure Log that included all pertinent information to provide control. PM 12-02 requires at a minimum, a system that tracks expenditures, as they occur, must be in place. Departments may use appropriate manual or computer logs. Entries must be current to give up-to-date information on funds expended.